

Note: Instructions for this worksheet are not included on this page.

**State of Michigan**  
**Evaluation of the Internal Control Structure**  
**in Effect During the Two-year Period Ended September 30, \_\_\_\_\_**

**Evaluating the Risks, Control Activities, and Monitoring Components**  
**Budget-related Activities**

Objectives	Control Objectives O,F,C	Risk Analysis	Risk Rating in an Uncontrolled Environment HI MED LO		Actions/Control Activities/Comments	Monitoring (i.e., Test of Controls, etc.)	Conclusion (Sufficiency or Effectiveness of Existing Internal Controls)
			Severity	Frequency			
Budget Development							
1. Programs are planned in an economical and efficient manner.	O	Fraud, waste and abuse are not discouraged			Budget procedures require program managers to supply and efficiently measure data  Program operating procedures are reviewed as part of budget process		
2. Agency budget is developed in accordance with missions of the agency and its components, legislative, legal and management policy and procedures.	O	Budget is "illegal" or improper  Budget request does not properly inform management of programs planned  Approved budget is not adequate to meet goals or is excessive compared to actual needs  Operations conducted are not properly authorized  Budget submissions are rejected			Budget office uses approved State Budget Office procedure  A budget system is used to accumulate budget data on an organizational and programmatic basis  Mission statements are included in budget  Budget is based on effective program measures and reviewed by management		
3. Budgetary information is properly classified in accordance with state/federal budget guidelines.	O	Budget is incorrectly prepared  Budget is rejected in approval process			An automated budget system is used  Defined procedures and forms are used		

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4. Budget processing procedures used are economical and efficient.	O	Budget process is uneconomical and inefficient			Budget procedures are defined  Personnel are trained in budget procedures  An automated budget system is used		
5. Budget is authorized in accordance with laws, requirements, and management's policy.	O	Budget is improperly authorized  Unauthorized programs are implemented			Budget approval process throughout agency is defined  Controls are implemented to verify that approvals are obtained		
6. Approved final budgets are properly entered into appropriate agency systems.	O, F	Budget vs. actual reports are incorrect  Overspending occurs because personnel are unaware of budget changes			Budget and/or financial personnel monitor budget revisions  Final budget used for expenditure control is approved by budget and management personnel  Operating personnel are informed of changes		
7. Allotments granted by the State Budget Office are properly accounted for and reconciled with overall appropriations.	O, F	Expenditures not properly controlled  Overspending may occur  Proper expenditures delayed because of incorrect reporting			An automated budget system is used to control apportionments  Management reviews and approves actual vs. budget reports		
8. Budget reports are prepared accurately, promptly, and consistently to adequately present information they purport to display.	F	Management not properly informed of budget and actual performance  Incorrect management decisions made  Budget approvals are "invalid"			An automated budget system is used  Budget and accounting systems are properly interfaced  Reporting procedures are defined and communicated		

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Detail budget data is properly controlled/ accounted for and reconciled with final appropriations.	F	Individual operations overspend			Approval of allocation in systems is performed by management  Automated transfer of final budget data to accounting systems		
10. Access to critical budget forms, records, system programs, and processing procedures is permitted only in accordance with laws, regulations, and management's policy.	O	Incorrect budget data and reports are prepared			Access to records, forms, etc., is physically restricted		
<b>Budget Implementation</b>							
1. The department develops and monitors a spending plan.	O, C	Budgetary overspending results from having no plan and/or inadequate monitoring.			Continuous monitoring throughout the year to ensure funds are spent in accordance with the spending plan.		
2. "Funds override" capabilities are granted to appropriate personnel and only used in appropriate circumstances.	O, C	Inappropriate use results in overspending.  Applying capabilities in inappropriate circumstances results in overspending.			Security requests approved by appropriate staff  Periodic monitoring of transactions processed with user classes that possess funds override capabilities.		

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3. Transactions posted to Administrative Revolving Funds (ARFs) are routinely redistributed to the appropriate accounts.	F	Untimely redistribution results in overspending.			Agency staff redistributes ARF transactions at least quarterly and more frequently if directed by the State Budget Office.		
4. Expenditure transactions, (with the exception of ARFs), are charged to the appropriate coding block during initial transaction recording.	F	Temporary allocation to coding blocks with available spending authority.  Transfers at year-end to correct coding will result in previously unidentified overspending.  System controls to prevent overspending will be bypassed.			Review of expenditure to ensure charges to correct coding blocks regardless of available spending authority.		
5. Procurement related releases/purchases are authorized within <b>budget limits</b> and made in accordance with applicable laws, regulations, and directives.	O, C	Unauthorized purchases  Purchases from unauthorized vendors  Purchases exceed budget limits <ul style="list-style-type: none"> <li>– Purchases made outside of ADPICS (e.g. Pcard) do not run through system edits</li> <li>– Jurisdictional services are not approved by Civil Service</li> </ul>			Agency procurement staff follow DMB policies and procedures for requisition, reviewing, and approving all purchases, including DMB Purchasing Operations procedures that ensure purchases do not exceed delegated limits  Maintain updated vendor information – centralized OFM procedures for changing vendor file and ADPICS edits for 'barred' vendors  Purchases made outside ADPICS are monitored by agency staff to funding source  Review of budget limits prior to any requests for purchases (e.g. DV, Pcard, phone order)  Review for proper NIGP code usage is done by agency staff		

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					Document and enforce procedures for review of long-term supply contracts prior to execution to ensure prices are still competitive		
6. Contracts are authorized within <b><i>budget limits</i></b> and established in accordance with applicable laws, regulations, and directives	C	Unauthorized contract  Contract releases exceed budget limit			Maintain written policies and procedures for establishing a contract, its security, and the authorization to approve.  All contracts for jurisdictional services are required to have a valid CS-138 approved by Civil Service  Review budget limits prior to contract development		
7. Other disbursements are within budget limits and in accordance with applicable laws, regulations, and agreements.	O, F	Payments may exceed budget limits  Payments are inconsistent with terms of agreement  Payments may be made to ineligible recipients			Periodic comparison of payments to payment vouchers processed  Documented procedures for initiating, reviewing, and approving payment transactions  MAIN has budgetary controls		
8. Other disbursements are summarized and classified in accordance with management's plan.	O, F	Financial statements may be misstated due to any of the following: <ul style="list-style-type: none"> <li>• Omission of selected registers or journals from the summarization made to support journal entries</li> <li>• Omission of a journal entry</li> <li>• Incorrect coding</li> <li>• Duplicate journal entry</li> <li>• Improper cutoffs</li> </ul> <b><i>Budgetary control</i></b> over operations may be weakened			Written entity-wide coding instructions  Written procedures for requesting and approving changes in the chart of accounts  Assignment of responsibility for each account balance to a particular individual in the cycle  Analyze significant variances between actual and planned account balances  Written closing procedures stating, by function, sources to be used to prepare journal entries, cutoffs to be observed, accruals to be made and who is responsible to do what		

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9. Payroll transactions are summarized and classified in accordance with budgeted programs and pay regulations	F	<p>Incorrect payroll cost details</p> <p>Incorrect program reporting</p> <p>Misstated reimbursements</p> <p>Management unaware of actual costs</p>			<p>Journal entries reviewed/approved by proper supervisors</p> <p>Appropriate levels of management receive periodic operation reports detailing salaries and wages compared to budget, for the operational entity</p> <p>Reports issued of transactions processed</p> <p>Projected costs compared to budgets</p>		
10. Personnel transactions are summarized and classified in accordance with budgeted programs, pay regulations, and budget limits.	F	<p>Insufficient funds available to support personnel changes.</p> <p>Incorrect payroll cost details</p> <p>Incorrect program reporting</p> <p>Misstated reimbursements</p> <p>Management unaware of actual costs</p>			<p>Journal entries reviewed/approved by proper supervisors</p> <p>Appropriate levels of management receive periodic operation reports detailing salaries and wages compared to budget, for the operational entity</p> <p>Reports issued of transactions processed</p> <p>Projected costs compared to budgets</p>		
11. Journal entries are prepared each accounting period for receipts and related adjustments	F	<p>Financial statements may not become available on a timely basis</p> <p>Financial statements may be misstated due to any of the following:</p> <ul style="list-style-type: none"> <li>• Omissions of selected registers or journals for summarizations made to support journal entries</li> <li>• Omission of a journal entry</li> <li>• Incorrect coding</li> <li>• Duplicate journal entries</li> <li>• Improper cutoffs</li> </ul> <p><b>Budgetary control</b> over operations may be weakened</p>			<p>Written chart of accounts containing a description of each account</p> <p>Written entity-wide coding instructions</p> <p>Assignment of responsibility for each account balance, to a particular individual in the cycle</p> <p>Written closing procedures stating, by function, sources to be used to prepare journal entries, cutoffs to be observed, accruals to be made, and who is responsible to do what</p>		

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12. Approve only those requests to buy or sell assets that meet laws, regulations, and management's policy	O	<p>Agency may fail to comply with laws or regulations</p> <p>Management may be subject to violations of <b>budgetary</b>, appropriation or legislative limitations</p> <p>Unauthorized transactions</p> <p>Unrecorded transactions</p>			<p>Clear statements of criteria, including documented source of assets</p> <p>Transactions are authorized by management</p>		
13. Journal entries for assets acquired/retired (and related adjustments) are prepared and posted each accounting period	F	<p>Reports may not become available on a timely basis</p> <p>Reports may be misstated due to any of the following:</p> <ul style="list-style-type: none"> <li>• Omission of selected registers and journals</li> <li>• Omission of journal entry</li> <li>• Incorrect coding</li> <li>• Duplicate journal entries</li> <li>• Improper cutoffs</li> </ul> <p><b>Budgetary control</b> over operations may be weakened</p>			<p>Use MAIN with its available controls</p> <p>OFM records entries at year-end to adjust balances in the Statement of Net Assets (the entity-wide balance sheet)</p> <p>Written chart of accounts with account descriptions</p> <p>Written coding instructions</p> <p>Assignment of responsibility for each account balance to an individual in the cycle</p> <p>Budgeting/reporting according to same chart of accounts; analysis of significant variances between actual and planned account balances</p> <p>Written cutoff and closing schedules</p>		

**BUDGET RELATED ACTIVITIES – Overall Conclusion/Control System Strengths and Weaknesses**

I certify that this evaluation of the Risks, Control Activities, and the Monitoring of Budget Related Activities components of the internal control system in effect during the two-year period ended 9/30/\_\_\_\_ has been conducted in a reasonable and prudent manner, and I concur with the conclusions documented above as a result of this evaluation.

Activity Level Manager Signature \_\_\_\_\_ Date \_\_\_\_\_